Management's Discussion and Analysis

Management's Discussion and Analysis of HumanaDental Insurance Company As of December 31, 2009

Insurer's Business

HumanaDental Insurance Company ("The Company") is a wholly owned subsidiary of HumanaDental, Inc. ("HDI") which in turn is a wholly-owned subsidiary of Humana Inc. ("Humana"). The Company, which is domiciled in Wisconsin, underwrites and retains dental business in most of the 49 states where the company is licensed. In addition, the Company is the direct writer of a runoff book of Life, Annuity and Health business which is 100% ceded to the Company's previous parent company, Protective Insurance Company.

Health Reform

The President of the United States and members of the U.S. Congress have enacted significant reforms to the U.S. health care system. On March 23, 2010, The Patient Protection and Affordable Care Act was signed into law by the President. The Health Care and Education Reconciliation Act of 2010 was passed by the U.S. Congress in March 2010 and is expected to be signed into law by the President within days. The provisions of these new laws include limiting Medicare Advantage payment rates, stipulating a prescribed minimum ratio for the amount of premium revenues to be expended on medical costs for Medicare Advantage plans, mandatory issuance of Commercial insurance coverage, requirements that limit the ability of health plans and insurers to vary premiums based on assessments of underlying risk, stipulating annual rebates to enrollees if the amount of premium revenues expended on medical costs falls below prescribed ratios for group and individual health insurance coverage, and imposing significant new non-deductible taxes on health insurers. Various health insurance reform proposals are also emerging at the state level. Because of the unsettled nature of these reforms and the numerous steps required to implement them, we cannot predict what additional health insurance reforms will be implemented at the federal or state level, or the effect any future legislation or regulation will have on our business. However, these legislative changes may have a material adverse affect on our statutory results of operations, including lowering our Medicare payment rates and increasing our expenses associated with the non-deductible excise tax, financial position, and cash flows.

Results of Operations

Accounting Treatment

The Company prepares its financial statements on the basis of accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin. These accounting practices differ from generally accepted accounting principles (GAAP) as certain assets, including certain deferred income taxes, certain aged premium and healthcare receivables, prepaid expenses, and certain fixed assets are considered non-admitted assets for statutory purposes and are excluded from the statutory statements of admitted assets, liabilities and surplus. In addition, certain debt investments that would be shown at market value under GAAP are presented in the statutory statements of admitted assets, liabilities and surplus at amortized cost.

Statements of Admitted Assets, Liabilities and Surplus

The following is a summary of invested assets at December 31, 2009 and 2008:

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	Amounts in $000's			
	2009	2008	$ Change	% Change
Bonds	$ 63,689	$ 73,444	$ (9,755)	-13%
Stock (Preferred & Common)	-	3,005	(3,005)	-100%
Short-term investments	7,939	5,997	1,942	32%
Cash & cash equivalents	15,716	7,575	8,141	107%
Total	$ 87,344	$ 90,021	$ (2,677)	-3%

The total of cash and invested assets decreased $2.7 million in 2009 to a total of $87.3 million at December 31, 2009 due to change to be the result of the $22.0 million dividend in 2009 partially offset by improved market conditions. Short-term investments are recorded at amortized costs. Bonds with a NAIC's Securities Valuation Office (SVO) rating of 1 or 2 carried at amortized cost, while all other bonds are recorded at the lower of amortized cost or fair value.

The following is a summary of other assets at December 31, 2009 and 2008:

	Amounts in $000's			
	2009	2008	$ Change	% Change
Investment income due and accrued	$ 530	$ 681	$ (151)	-22%
Premiums receivable	1,215	1,650	(435)	-26%
Deferred tax asset	1,090	734	356	49%
Net equipment	146	107	39	36%
Healthcare and other receivables	559	596	(37)	-6%
Receivable from Humana Inc.	1,409	120	1,289	1074%
Total	$ 4,949	$ 3,888	$ 1,061	27%

Premiums receivable decreased $435,000 in 2009 to a total of $1.2 million at December 31, 2009 due mostly to an increase in the allowance for retroactivity adjustment at the end of December 31, 2009 of $315,000.

Deferred tax asset increased $356,000 in 2009 to a total of $1.1 million at December 31, 2009 due to a $353,000 increase related to deferred acquisition costs.

Net equipment increased $39,000 in 2009 to a total of $146,000 at December 31, 2009 due to increase in computer equipment.

The payable to and receivable from Humana Inc. tends to fluctuate as estimates of intercompany activity are made based upon recent activity. These balances are proactively settled each month based upon these estimates. Given the variability of the major items to be settled, significant variances can occur between the estimated and actual intercompany activity which results in intercompany balances due to or from Humana. The receivable balance from Humana of $1.4 million is due primarily to the estimates around tax expense which contributed significantly to the resulting intercompany balance at December 31, 2009.

The following is a summary of liabilities at December 31, 2009 and 2008:

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	Amounts in $000's			
	2009	2008	$ Change	% Change
Benefits & LAE payable	$ 17,550	$ 15,657	$ 1,893	12%
Aggregate reserves	323	225	98	44%
Advance premiums	6,848	5,529	1,319	24%
Accounts payable and accrueds	7,877	8,189	(312)	-4%
Interest maintenance reserve	1,286	450	836	186%
Asset maintenance reserve	-	69	(69)	-100%
Total	$ 33,884	$ 30,119	$ 3,765	13%

Advanced premiums increased $1.3 million in 2009 to a total of $6.8 million at December 31, 2009. There was no specific group that contributed to this 24 percent increase between years but a general increase in the amounts paid in advance for numerous groups in 2009.

An increase of the interest maintenance reserves is due to the increase in realized pre-taxed capital gains of $1.0 million in 2009 versus $0.4 million in 2008. The elimination of the asset maintenance reserve results from the sale of all common stock during 2009.

Total Surplus at December 31, 2009 was approximately $58.4 million. The following items effected the change in surplus:

	Amounts in $000's
	2009
Total surplus December 31, 2008	$ 63,790
Net income	15,582
Change in net deferred income taxes	578
Change in non-admitted assets	13
Change in asset valuation reserve	69
Paid in surplus adjustment	376
Dividends to stockholders	(22,000)
Total surplus December 31, 2009	$ 58,408

The Company pays a portion of its excess capital to Humana, Inc, in the form of dividends, subject to regulatory restrictions. The Company requested and received approval from the OCI to pay dividends to Humana of $22.0 million and $25.0 million during 2009 and 2008, respectively. Of the dividends paid in 2009 and 2008, approximately $15.7 million and $18.5 million, respectively, were extraordinary.

The Company's Total Adjusted Capital must be equal to or above its Authorized Control Level RBC of $7.8 million or the Company, under the discretion of the Commissioner of the OCI, could be placed under regulatory control. The Company reported capital and surplus of approximately $58.4 million and $63.8 million as of December 31, 2009 and 2008, respectively.

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Revenue Recognition

We generally establish one-year commercial membership contracts with employer groups, subject to cancellation by the employer group on 30-day written notice. Our commercial contracts establish rates on a per member basis for each month of coverage.

Premium revenues are estimated by multiplying the membership covered under the various contracts by the contractual rates. In addition, we adjust revenues for estimated changes in an employer's enrollment and individuals that ultimately may fail to pay. Enrollment changes not yet processed or not yet reported by an employer group or the government, also known as retroactive membership adjustments, are estimated based on available data and historical trends. We routinely monitor the collectability of specific accounts, the aging of receivables, historical retroactivity trends, as well as prevailing and anticipated economic conditions, and reflect any required adjustments in the current period's revenue.

Results of Operations

The results of the Company's operations during 2009 and 2008 were:

	Amounts in $000's			
	2009	2008	$ Change	% Change
Earned premiums	$ 295,216	$ 296,428	$ (1,212)	0%
Benefits incurred	(199,946)	(198,822)	(1,124)	1%
Selling, general and administrative expenses	(74,210)	(63,595)	(10,615)	17%
Net underwiting gain	21,060	34,011	(12,951)	-38%
Net investment income	2,820	3,960	(1,140)	-29%
Amortization of interest maintenance reserve	188	95	93	98%
Net capital gain (loss)	161	(1,073)	1,234	-115%
Net other income	1,197	141	1,056	749%
Income before federal income tax expense	25,426	37,134	(11,708)	-32%
Federal income tax expense	(9,844)	(14,469)	4,625	-32%
Net income	$ 15,582	$ 22,665	$ (7,083)	-31%

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There was an increase in selling, general and administrative expense of $10.6 million in 2009 to a total of $74.2 million at December 31, 2009 due to an increase of commission expense on premiums of $3.5 million, an increase of general insurance expenses of $5.1 million and an increase of $2.0 million in insurance taxes and fees. The increase in commission expense was driven by a change in the methodology used in the allocation of sales incentives to the Company. The increase in general expenses was primarily the result of increased expenses for outside services and contracts. The company also experienced an increase in business licenses in 2009, primarily driving the $2.0 million increase in taxes, licenses and fees.

The increase of $1.2 million in net capital gain to a total of $161,000 at December 31, 2009 is primarily due to improving market conditions which lead to a decrease in realized losses due to impairments between years. The increase of other net income of $1.1 million to a total of $1.2 million is due to other income from dental access fees.

The Company has a management contract with Humana and other related parties whereby the Company is provided with medical and executive management, information systems, claims processing, billing and enrollment, and telemarketing and other services as required by the Company. Management fees charged to operations for the years ended December 31, 2009 and 2008 were approximately $7.3 million and $2.2 million, respectively.

As a part of this agreement, Humana makes cash disbursements on behalf of the Company which includes, but is not limited to, claims payments, general and administrative expenses, commissions and payroll. Humana is reimbursed by the Company weekly, based upon historical pattern of amounts and timing. Each month, these estimates are adjusted to ultimately settle upon actual disbursements made on behalf of the Company. The Company continues to be primarily liable for any outstanding payments made on behalf of the Company, should Humana not be able to fulfill its obligations.

The medical loss ratio for the years ended December 31, 2009 and 2008 was 67.7 percent and 67.1 percent, respectively. This loss experience is in line with that recorded in the last several years.

Cash Flow and Liquidity

The Company's cash receipts result primarily from premiums, administrative fees, investment income, and proceeds from the sale of maturity of investment securities. Cash disbursements result mainly from claims payments, administrative expenses, income taxes, purchases of investment securities, and dividends paid to the Company's parent. Cash outflows fluctuate with the amount and timing of settlement of these transactions. Any future decline in profitability would likely have some negative impact on the Company's liquidity.

The Company's cash, investments and capital structure are managed to enable meeting the short and long-term obligations of the Company's business while maintaining financial flexibility and liquidity, and are forecasted, analyzed, and monitored to enable investment and financing within the overall constraints of the Company's financial strategy.

Given the Company predominately writes short tailed health business, the investment portfolio is conservatively managed with an emphasis on high quality, liquid holdings which provide a reasonable return.

Cash flows during 2009 and 2008 are summarized as follows:

	Amounts in $000's	
	2009	2008
Net cash from operations	$ 18,946	$ 25,552
Net cash from investments	13,748	305
Net cash used for financing and miscellaneous activities	(22,611)	(28,373)
Net change in cash, cash equivalents and short-term investments	$ 10,083	$ (2,516)

The $6.6 million decrease in net cash from operations was primarily due to an $11.8 million increase in commission and general expenses paid, partially offset by the decrease of $4.0 million of federal and foreign income taxes paid. The $13.4 million increase in net cash used for investments was primarily due to redeployment of liquid assets into available investment opportunities as the market improved. The $5.8 million decrease in net cash used for financing and miscellaneous activities was primarily due to decrease of dividend paid to parent of $22 million and $25 million in

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2009 and 2008, respectively and $1.4 million increase in other cash applied. The increase in other cash applied is due primarily to the fluctuation in the receivable from Humana Inc.

Cautionary Statements

This document includes both historical and forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events, trends and uncertainties. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions, including, among other things, the information discussed below. In making these statements, we are not undertaking to address or update each factor in future filings or communications regarding our business or results. Our business is highly complicated, regulated and competitive with many different factors affecting results.

Due to the nature of its business, the Company is or may become subject to pending or threatened litigation or other legal actions relating to the failure to provide or pay for health insurance coverage or other benefits, poor outcomes for care delivered or arranged under the Company's programs, nonacceptance or termination of providers, failure to return withheld amounts from provider compensation, and failure to disclose network discounts and various provider payment arrangements and claims relating to contract performance. Recent court decisions and legislative activity may increase the Company's exposure for any of these types of claims.

Management does not believe that any pending or threatened legal actions against the Company or audits by agencies will have a material adverse effect on the Company's financial position, results of operations, or cash flows. However, the likelihood or outcome of current or future suits cannot be accurately predicted with certainty. In addition, the potential for increased liability for medical negligence arising from claims adjudication, along with increased litigation that has accompanied the negative publicity and public perception of our industry, adds to this uncertainty. Therefore, such legal actions and government audits and investigations could have a material adverse affect on the Company's financial position, results of operations or cash flows.